DOCUMENT RESUME

ED 476 441 HE 035 860

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TITLE	Impact on Student Demand of Tuition Fees and Changes in Higher Education Student Support. A Literature Review.
INSTITUTION	Higher Education Funding Council for England, Bristol.
PUB DATE	2003-00-00
NOTE	28p.
AVAILABLE FROM	Higher Education Funding Council for England, Northavon House, Coldharbour Lane, Bristol, BS16 1QD England. Tel: 0117-931-7317; Fax: 0117-931-7203; Web site: www.hefce.ac.uk.
PUB TYPE	Reports - Research (143)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS
DESCRIPTORS	*Access to Education; *Enrollment Trends; Foreign Countries; Higher Education; Paying for College; Potential Dropouts; *Student Financial Aid; *Tuition
IDENTIFIERS	*England

ABSTRACT

The Higher Education Funding Council for England (HEFCE) commissioned a review of the available literature on the impact of the introduction of means-tested contributions to tuition fees for full-time undergraduates from 1998-1999. The overall objective was to provide evidence to assist the HEFCE's ongoing assessment of future levels of student demand for higher education and the scope for increasing demand through widening access. Evidence was sought about: (1) the propensity of young people to enter higher education and the factors affecting that propensity; (2) evidence about student hardship; and (3) evidence about nonpayment of fees and dropout. The literature about the impact of new financial support arrangements for students in higher education, including the introduction of the means-tested contribution to tuition fees, remains limited. It is only 3 years since the new arrangements were introduced, and the first full cohort of graduates with income contingent loans at the new substantially higher level will only start repayments next April. In spite of the shortcomings in the literature available, findings generally suggest that costs and potential benefits are two among several factors affecting decisions by those in the lowest socioeconomic groups on whether to enter higher education. Given the evidence that there is reluctance on the part of some young people to meet some of their costs by taking out substantial loans, it would seem that part of the solution should be to replace some of the loans by grants. For institutions, the task is to provide ways of ensuring that potential students are aware of what the institution can offer. (Contains 30 references.) (SLD)

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ED 476 441

Impact on student demand of tuition fees and changes in higher education student support

A literature review for HEFCE

by Nigel Brown and Tony Clark,
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Background

1. We were commissioned by HEFCE to undertake a review of the available literature on the impact of the introduction of means-tested contributions to tuition fees for full-time undergraduates from 1998/99. The overall objective of this study was to provide evidence to assist HEFCE's ongoing assessment of future levels of student demand for higher education and of the scope for increasing demand through widening access.

2. It was clear from the outset that it would almost certainly not be possible from the literature to separate concerns about tuition fees from wider concerns about the impact of the whole package of changes to the financial support arrangements introduced from 1998/99. In particular the replacement of the mixed grant/loan system for maintenance support with the loan-based system was likely to loom at least as large as fee payments in the financial concerns of individuals and their parents. In general parents are more likely to be concerned about tuition fees since they are expected to make the required contribution, but students are more likely to be concerned about loans for living costs since they are liable to repay the debt. In practice the evidence suggests that concerns are not so clear cut. We have, however, considered the evidence available about the relevant impact of the introduction of means-tested tuition fees and the ending of maintenance grants.

3. In this wider context similar literature reviews were undertaken on behalf of the Cubie Committee (Independent Committee of Inquiry into Student Finance (ICISF) 2000a and 2000b) and for the Independent Investigation Group on Student Hardship and Funding in Wales (IIGSFHW) (Welsh Assembly 2001a and 2001b). Both these reviews covered both higher education and further education student finance. The ICISF research report "Balancing the Books: Pounds & Potential" (ICISF 2000b) pointed out the paucity of the relevant research literature given the short time since the introduction of the new arrangements and the need to rely very often on reports of work in progress or on small scale case studies conducted in institutions.

4. Although there have been some significant reports and articles based on relevant studies published since the publication of the Cubie report, many of these cover data collected before or up to1998/99, the first year of the new arrangements for financial support when grants for living costs were still available on an interim basis. (eg Callender and Kemp 2000). The relevant UK literature remains limited and it will be some time before research is able to provide a full analysis of the impact of the changes from 1998/99 to financial support for higher education students on participation. There is increasing evidence about the impact of the changes on the attitudes of potential students, particularly those from the lowest socio-economic groups, but we are a long way from having the level of understanding of the impact of changes to financial support arrangements on student participation that is available from research on the US system. (Dynarski 1999). This is particularly so because it appears that many students still do not have a clear picture of the support arrangements when they enter higher education.

5. Under the Political imperatives facing the Labour Party in the Scottish Assembly, the Scottish Executive has moved to implement the recommendations of the Cubie Report to replace up front means-tested fee contributions with a graduate contribution to a Scottish Endowment fund and to provide increased targeted grant support to students from the poorest families. The Independent review of student finance in Wales had to adopt a less direct approach to the issue of student support, because responsibility for the issue in Wales continues to rest with the Secretary of State for Education and Skills rather than the Welsh Assembly.

Our approach

6. We first reviewed the research and literature reviews undertaken for the Cubie Committee in Scotland (ICISF 2000b) and for the Independent Investigation Group on Student Hardship (Welsh Assembly 2001b) in order to identify key researchers and documents relevant to the present study. Some of this material went wider than our remit covering in particular the financial support arrangements for further education students as well as higher education students.

7. We also met with or had telephone discussions with a number of key individuals, including Professor Claire Callender who directed the Student Income and Expenditure Survey (Callender and Kemp 2000) and is now undertaking the study of the impact of student debt on participation in higher education for Universities UK and HEFCE, Lindsey Fidler, Research Officer of the National Union of Students, and officers from the Higher Education Directorate at DFES with responsibilities for commissioning research. These officials provided to us a copy of the latest research brief prepared for the Higher Education Directorate by the Open University. This brief provides summaries of methodology and key findings from recent research publications covering a range of topics in higher education, including widening participation. This served to enhance significantly our own literature searches.

8. In addition we used our personal contacts with individual Vice-Chancellors to access information from surveys and internal analyses undertaken by individual institutions. We sought to widen this by asking the British Universities Finance Directors Group (BUFDG) to trawl their members on our behalf. To date this exercise has thrown up less new material than we had hoped.

9. The material we have gathered together through this approach is inevitably an eclectic mixture of fully peer reviewed research papers, methodologically robust surveys providing time series data and survey material sometimes relating to only one year. We have, nevertheless, sought to bring together and review the findings and implications of this mixture of material under three main headings:

- Evidence about the propensity of young people from the lowest socio-economic groups to enter higher education and the factors affecting that propensity, including their view of the costs and potential benefits of participating in higher education, the financial support for meeting those costs and parental attitudes.
- Evidence about student hardship.
- Evidence about non-payment of fees and drop-out.

10. We have also sought out literature on relevant issues from other countries, particularly the USA and Australia where the principles of individual contributions to the cost of study in higher education have been taken furthest forwards.

11. This approach is based on the thesis that, if many suitably qualified young people from the lowest socio-economic groups are already predisposed, as much of the literature seems to indicate, against participation in higher education for financial (as well as other) reasons, this predisposition is likely to be reinforced if they hear about the reality of hardship from their peers already in higher education.

Attitudes of Young People and Their Parents to Participation in Higher Education

12. There is a growing research literature on the attitude of young people to participation in higher education focussed mainly on the attitudes of the largest under-represented group in higher education, young people from lower socio-economic groups[1]. Most of the findings from this work have been derived from questionnaires or focus groups including young people still at school or college, students in higher education and those not participating in higher education. It is, therefore concerned with attitudes and perceptions. We have found only one significant published research study that seeks to follow up individuals as they decide whether or not to apply for higher education (Forsyth and Furlong 2000).

13. There is also a limited research literature on the attitudes of parents following up the initial focus group work undertaken by Anthony Hesketh (1999) prior to the introduction of the changes in financial support from 1998/99. Some of this is linked to the work on the attitudes of school pupils.

14. We have been unable to track down any recent research relevant to the issue of the propensity of mature students to participate in full-time or part-time higher education, as opposed to studies of the propensity of adults to participate in learning more generally. There is the evidence of the higher levels of expenditure which full-time mature students incur (Callender and Kemp 2000) which is considered further below. Otherwise there is little beyond the evidence in the decline in demand from mature students since 1994-95 from the HESA database (HESA 2000) and the analysis in HEFCE's paper on the decline in the size of the mature cohort for demographic reasons because of the increase in the numbers of young people obtaining graduate qualifications since 1989.

Findings

15. The study "*Socioeconomic disadvantage and access to higher education*" (Forsyth and Furlong 2000) is the most comprehensive research of relevance to this study in that, following the first stage questionnaire while individuals were still at

[1] "Lower socio-economic groups has been used throughout to refer to social classes IIIM, IV, and V. However, some of the research literature reviewed here sometimes uses phrases such as "working class". There is also a more general difficulty of defining the social class of certain groups of individuals such as those from lone parent families where the single parent is not in work.

school, the individuals who participated were followed up after they had entered higher education or made an alternative choice. The sample of 516 school leavers was drawn from final year students in 16 schools in disadvantaged areas in the West of Scotland. The distribution by social class of participants was, however, not unduly skewed to the lower socio-economic groups. As the authors suggest this might have reflected a degree of pre-selection with a higher proportion of those from the lowest socio-economic groups having already left secondary education. The research was carried out in the Spring and Autumn of 1999 and related to individuals entering higher education in 1999/2000.

16. The study, therefore, allows comparisons to be drawn between the attitudes and experiences of those from the lowest socio-economic groups and those from the higher groups. Unlike most of the other studies it was based on questionnaires administered directly, but followed up with in-depth interviews with a stratified sample of those completing the questionnaire. A parallel survey of parents of the students was also undertaken (see below).

17. On the other hand, because this study was based on Scottish school leavers, its value for the purposes of this study may be limited for the following reasons:

- A significantly higher proportion of young people from the lowest socio-economic groups have traditionally entered higher education in Scotland than in England and Wales.
- The secondary school system and the structure of school leaving qualifications in Scotland are different, particularly the opportunity that exists for students to build up their 'Higher'[2] scores over two years.
- A long tradition especially in the West of Scotland of students studying from home.
- There has been a clearer division of responsibilities by course level between institutions in Scotland, with practically all HND and HNC provision in FE Colleges.
- These individuals are part of a very limited group of Scottish students who were liable to contribute to up-front fees before the implementation of the Cubie recommendations. On the other hand it does relate to a group of students who were contemplating or entering higher education when the new student financial support arrangements had been introduced in full.

18. The principal findings of relevance to this study are:

- A clear correlation of social class and educational attainment as measured by 'Higher' scores already achieved at the end of year 5 with the lowest scores being amongst those whose social class could not be determined often because they came from one parent families.

[2] 'Highers' are the main entry qualification to higher education in Scotland and have a similar role to A levels in the rest of the UK. They may be taken at the end of the fifth year of secondary education (S5) when pupils are 17. At the time of the study referred to here pupils in the sixth year of their secondary education could either re-sit their 'Highers' (should they have failed to reach a satisfactory standard at the end of Year 5), sit extra 'Highers' or enrol on Certificate of Sixth Year Studies (CSYS) courses. These CSYS courses were not taken by all university entrants

- A majority of the participants from higher socio-economic groups entered higher education programmes on leaving school whereas less than one-third of those from the lower socio-economic groups and those not classified entered degree programmes. Nevertheless, detailed statistical analysis showed that nearly 60% of the variation in higher education participation remained unexplained.
- Money appeared to be the reason why most students in the sample chose to enrol at their local university.
- There was a major lack of understanding of the level of fee contribution. At the time of the first questionnaire 73% did not know what fee contribution they would have to make and even at the time of the second questionnaire 17 % still did not know even though by then they were enrolled. 12% thought at the time of the first questionnaire that they would have to pay the full fee whereas in practice 26% had to, and 13 % thought they would be exempt whereas in practice 36% were.
- There were a number of other pressures on students from the lowest socio-economic groups against entering higher education, including peer and parental pressure and the lure of getting a paid job

19. Knowles in "Pity the Poor Student (Knowles 2000a) examined the relationship between educational attainment and social class with particular reference to the city of Kingston-upon-Hull. This also included the results of a research study of the educational and career aspirations and the attitudes to and knowledge of higher education of pupils in year 9 in a comprehensive school serving one of the most disadvantaged districts in Hull and a summary of the findings of another research project reported more fully in "Access for Few" (Knowles 2000b). This latter study carried out in 1999 used a questionnaire survey of 185 lower sixth form pupils in three institutions in one geographical area – an independent school, a state comprehensive with a normal social class intake and a sixth form college with a large proportion of students from disadvantaged backgrounds within its intake. The questionnaire surveys were followed up by in-depth interviews with teachers responsible for advising students about entry to higher education and with small groups of students in each institution. The objective of this study was to investigate the impact of the changes to the financial support arrangements for higher education students on the application intentions of the pupils surveyed.

20. These two studies are based on limited samples and their findings may be difficult to generalise. However, the second study serves to confirm the degree of ignorance on tuition fees in particular. Some of the impact on choices from this study may therefore be based on misinformation about the changes to student support rather than the changes themselves.

21. The main findings from the study of Year 9 pupils in the Hull school (Knowles 2000a) were:

- The ignorance of progression routes to higher education
- The lack of contact of those from disadvantaged groups with individuals with experience of higher education. Where there is contact it is most often with relatives outside the immediate family circle who have at best a moderate influence on pupils' aspirations.

- For the majority of the pupils, their career aspirations exceed those of their family background.

22. The main findings from the survey of first year sixth form pupils were:

- There was a significant lack of understanding of the tuition fee regime when the answers as to the expected contribution were linked to parental occupation across all groups
- The biggest reduction in the likelihood of individuals applying to higher education arising from increased knowledge of the financial support arrangements was amongst pupils in the sixth form college which had the highest proportion of pupils from the lowest socio-economic groups. However, the change of mind was heavily correlated with the degree of contact with individuals who had participated in higher education. Those who continued to intend to apply to higher education from the college were, however, significantly more likely than their counterparts in the state comprehensive school or the independent school to limit their UCAS choices to local institutions.
- Loans or the thought of owing a lot of money were seen as a disincentive to participation in higher education by a higher proportion of pupils in the sixth form college than of those in either the independent school or the state comprehensive school. However, it is not clear from the research paper how well informed pupils were about the nature of the loans that would be available.

23. There are two recent studies aimed particularly at obtaining a better understanding of the barriers to participation amongst school pupils from the lowest socio-economic groups. DFES Research Report 267 (Connor and Dewson et al. 2001) and a report by Dr Louise Archer of the Institute for Policy Studies at the University of North London (Archer 2000). The research on which the latter is based has already formed the basis of a number of Conference papers by Dr. Archer and her colleagues and will also form the basis for a book that has been commissioned.

24. The DFES Research Report 267 "*Social Class and Higher Education: Issues Affecting Decisions on Participation by Lower Social Class Groups*" (Connor and Dewson et al. 2001) was based on a study covering England and Wales and included full time and part-time study at undergraduate level. The findings were derived from three target groups:

- A series of focus groups of 223 students from lower socio-economic groups currently taking qualifications that would give them entry to an undergraduate course.
- A postal questionnaire of over 600 students from lower socio-economic groups backgrounds who entered undergraduate programmes at 14 higher education institutions in 1999-2000, 20 of whom were subsequently interviewed.
- and telephone interviews with 112 individuals who were identified as being qualified to enter higher education but had decided not to do so.

25. The main findings of the research which are relevant to this study are:

- The main reasons why individuals from lower socio-economic groups in the study had decided not to enter higher education were either because they wanted to start employment or their career goal did not require a degree qualification.
- Affording the cost of studying and being in debt were also identified as key reasons for not going to university. Concerns about costs were wider and more complex than about paying fees. They were linked to concerns about borrowing and future debt, working to earn income during term time, but also to uncertainty about the financial outcomes for them of higher education study.
- The main gaps in information available to potential students about higher education study relate to costs and funding/support available prior to entry. Three quarters of the full-time students in the survey did not feel they had sufficient information (when deciding about whether to go to university) about the likely cost to the student.
- Nevertheless, students from lower social class backgrounds put more emphasis than those from higher groups on the expected beneficial outcomes of higher education study of improved job and career prospects, including improved earnings and job security.
- Finance was only one of a number of concerns when deciding to go to university. Others include being able to cope with academic pressures and the application process itself.

26. These findings are reinforced and expanded upon in "*Social Class and Access to Higher Education*" (Archer 2000). (See also in Archer and Ross, Times Higher Education Supplement, 16 February 2001). It is not clear, however, from the report when the study was undertaken. It says that the study was undertaken over a two year period and it appears to be implicit that the period in question was after the introduction of the new financial support arrangements in 1998-99. The research project was conducted in three phases:

- Phase 1 involved 16 focus groups with 118 non-participants from working class groups living in North and East London.
- Phase 2 involved a national survey of adults from social classes C1, C2, D, and E aged 16-30 in England and Wales using the MORI Omnibus Survey with questions informed by the findings from the Phase 1 focus groups. Responses were received from 1,278 individuals, 17% of whom had attended or were currently attending university and a similar proportion said they might attend at some future date.
- Phase 3 involved 17 focus groups of 85 first year undergraduates at an inner-city new University.

27. The main findings relevant to this study were:

- Financial barriers to working class participation were a consistent theme from the research.
- Both non- participants and those already in higher education were confused about grants/loans and fees. Not a single non-participant had any knowledge of means-testing in the assessment of payment of tuition fees or loan application. On the other hand there was a general mistrust of 'official' sources of information.

- Student loans were widely assumed to be the same as bank loans and were associated with a fear of debt.
- The process of applying for financial support was found to be highly complex and repetitive
- Higher education participation entails considerably greater social and economic risks for working class students with no guarantees of success. As the paper says

  "In the face of these risks, many respondents' reasons for not wanting to participate could be identified as using pragmatic rational strategies of risk management".

- This was also reflected in respondents' attitudes to different types of universities. Their view was that only certain (less prestigious universities were accessible for working class students. Their 'dream' universities that offered better graduate jobs were further away and seen as the domain of students from middle class families who were able to plan ahead.
- They characterised the graduate employment market as 'overcrowded and mass higher education was seen as a barrier to participation for them. Their overall view was summed up as

  "Working class students having attended 'second rate' universities and having achieved lower qualifications as a result of juggling work, financial and social pressures would be squeezed out".

28. This final point has also been identified in some current research being undertaken by UCAS and five higher education institutions (UCAS 2001) on participation from lower socio-economic groups, the preliminary results of which were reported in the Times Higher Educational Supplement on 6 July 2001. The research has pointed up the concern of the participants in the study that attending a university of low reputation and consequent lowered employment prospects is a significant factor in students deciding not to attend university in addition to the fear of debt

29. Some unpublished research to support the DFES 'Excellence in Cities Initiative' (DFES 2001) and principally aimed at identifying the best messages for selling higher education to those from the lowest socio-economic groups also adds support to the view that a major concern about participation in higher education amongst young people in the lowest socio-economic groups is fear of accruing "huge, even debilitating debt"

Parental Attitudes

30. As reported both in ICISF 2000b and in Welsh Assembly 2001b Anthony Hesketh's analysis (Hesketh 1999) of parental attitudes to the new financial support arrangements for higher education students based on interviews with 47 parents found that parents were worried about their children incurring debt. Those on the most modest incomes had the greatest concerns and saw the choice as lying between higher education with debt or no higher education.

31. Amongst the parents surveyed in the study undertaken by Forsyth and Furlong (2000) some 70% of the parents responding were unhappy or very unhappy with

their sons and daughters taking out student loans. On the other hand 64% were willing to pay most or all of their contribution, although only 34% said they would be able to do so and 42 % said they would be able to pay little or nothing

32. A more recent study on Saving for Learning undertaken by Mark Corney (Corney 2001) offered some interesting insights into how parental attitudes may be changing in the light of the introduction of tuition fees and the replacement of grants with loans. The study involved 13 focus groups of 110 parents with children of different ages, parents who did not yet have children and grandparents. One-third of participants had household incomes of less than £400 per week; the rest had incomes above this figure.

33. The key findings were:

- Practically all the participants wanted their children or grandchildren to undertake higher education if they obtained the necessary qualifications.
- The parents of younger children expected that the financial contribution required from families would have increased substantially by the time their children reached 18.
- The parents with children currently in higher education felt that they had been betrayed by the government given the lack of warning about the introduction of tuition fees
- One third of the sample said that they were now saving for learning principally to pay university tuition fees and reduce the level of maintenance loans that their children would need to take out.

Commentary

34. Although it is still early days to draw definitive conclusions about the impact on demand for higher education of the changes to the financial support arrangements introduced in 1998-99, the research evidence on the attitudes of young people from the lowest socio-economic groups does appear to paint a consistent picture. Much of the research considered here is, however, based on relatively small samples of individuals and relies heavily on focus groups. In addition, with one or two exceptions there has been no follow up studies undertaken on whether or not individuals actually entered higher education. The evidence therefore remains to an extent circumstantial

35. Bearing in mind those caveats, the research literature reviewed here identifies several factors other than finance that predispose young people from the lowest socio-economic groups against higher education, but financial issues are identified as being at the forefront of the concerns, both concerns about the costs but also about the uncertainty of potential benefits. Young people from the lowest socio-economic groups appear to take a rather more hard-nosed view of the purposes of higher education than many of their middle class counterparts. They are, however, more at risk than their middle class counterparts of failing to secure the benefits of higher education while incurring greater costs.

36. In considering the costs all young people and their families tend to lump together tuition fees and loans for maintenance and in general appear to have a poor

understanding of the true costs of fees and the nature of student loans. In particular those from the lowest social classes do not always understand that they are very likely to be means-tested out of any tuition fee payment. While it is absolutely essential that ways are found to give all people contemplating higher education good up-to-date information about the costs involved, some people will be discouraged by cost information on its own. Nevertheless, good information must be better than misinformation by word of mouth.

37. The concerns about the balance between costs and benefits amongst those from the lower socio-economic groups qualified to enter higher education appears to be leading to two kinds of effect relevant to future levels of demand. First, some young people from the relevant groups are choosing employment rather than entering higher education of any kind. Second, those contemplating higher education are beginning to look at the reputation of institutions for the employability of their graduates. However, even if they have the qualifications to gain entry to the institutions concerned they may feel constrained from applying either because of lack of confidence about moving away from home or because of the desire to avoid incurring the additional costs of living away from home.

38. Fears about the level of debt they are likely to incur and the need to work during term time appear to be amongst the biggest factors inhibiting both young people from the lowest socio-economic groups from entering higher education. The likely size of the loan debt that their children will incur is also the biggest concern to parents about their sons and daughters undertaking higher education. The evidence about the impact of these issues on current students is considered further below.

Evidence of Student Hardship and Term-time Working

Introduction

39. While there is much research available on student hardship, it is mainly based on studies of the impact of student support policies in 1998/99 or earlier when grants for living costs were still available. The most comprehensive data available is through the student income and expenditure survey of 1998/99 carried out by Callender and Kemp and published in December 2000. The data for Welsh students in this Survey was extracted for the Welsh Assembly investigation (Callender and Kemp 2001). There is survey data available for later years through surveys carried out by individual universities (for example, Brighton (2000) and UCE, Birmingham (2001)) but this is not comprehensive.

40. There is no agreed standard for what constitutes hardship in the context of student support. Callender and Kemp (2000) showed that 87% of all full-time students reported that they experienced some financial difficulties. Some commentators have suggested that high levels of debt of themselves constitute hardship. However, the Government's policies for student support for full-time students are based on the premise that students may need to take out student loans of over £4,000 a year. This means that debts of around £12,000 for a 3 year degree course

should be regarded as the norm. The important element of the Government's case is that the new student loans are income contingent. They are repaid as benefits through graduate salaries are realised. This aspect of student loans is not yet fully understood by potential students or even by many students who have taken out the new loans. Nor is it always taken into account by those assessing student hardship.

Student Hardship: The Gap Between Student Income and Expenditure

41. The recent report to the National Assembly of Wales (Welsh Assembly 2001a) identified a gap of some £1300 between the annual spending by full-time students and the income available to meet that spending. This was based on a research review carried out by Dean Stroud and published at the same time (Welsh Assembly 2001b). This review included the following:

    "Evidence from Smith and Taylor(1999) and COSHEP(1999) estimated that the gap between the funding available and the annual funding required for an undergraduate student to complete a year of study is £1,300. However a National Union of Students (NUS) (1999) study estimated the average student expenditure outside London for the academic year 1999/2000 was £5,881 with a potential income of just £2,665 and an average shortfall of £3,225. Callender and Kemp(2000) found the mean expenditure to be £6,161 for UK full-time students for 1989/99 and the mean income from all sources to be £4,924 over the academic year. This results in a shortfall of £1,237."

42. The gaps in these four studies are significantly different in definition. Callender and Kemp sought to identify all spending and income from students. Their aim was to conclude with no gap between spending and income. The authors state explicitly that they are unable to account for the gap of £1,237. But they do point out that student's income (including income from employment) increased by 12% in real terms between 1995/96 and 1998/99, compared with an average increase in expenditure of 5%, that average 'large' loan debts amounted to £2,528, and that the gap between expenditure and income is narrowed to £572 if account is taken of withdrawal from savings and other loans and small gifts. The authors state also that :

    "It has not been possible to balance exactly a student's incomings and outgoings. Although the survey attempted to isolate income and expenditure for the student, most excess expenditure represents spending within couples or families that would be met by the student partner's income."

    Hence in the terms of this study, there should be no gap at all. The research is particularly helpful in identifying the full range of sources of income and some detail of the way in which students spend their money.

43. It should also be noted that the report to the National Assembly for Wales assumes that the mean figure for expenditure is the right basis for determining future student support policies. There are breakdowns of this expenditure available from the Callender/ Kemp studies and the median figure for expenditure is some £700 less than the mean. In other words, a relatively small proportion of students has expenditure significantly above the mean.

44. The COSHEP (1999) study estimates the annual cost of studying by reference to the level of state benefits paid to young people - £4,456 minimum for those under 25 and £5,013 for those over 25. COSHEP (1999) also refers to studies at two universities in Scotland which estimate the current annual living costs for students at around £5,000. With a maximum loan in 1999/2000 of £3,635, this leaves a funding gap of over £1,300. Forsyth and Furlong(2000) compared the actual income of individuals in their sample. This shows an average annual income from all sources of £3,798 for students in higher education compared to £2,620 for those in further education and £5,120 for non-students in the sample.

45. The NUS study (1999) estimated average annual student expenditure outside London as £5,881 with available income as £2,656.

46. Smith and Taylor (1999) in "Not for Lipstick and Lager" refer to students burdened with spiralling debt. This report is based on returns from 1,369 students at two of the universities in Glasgow (with a response rate of 24% and 22% respectively). Its main finding is that students are working substantial hours during term-time to meet their costs. More than a quarter of the students who made returns worked more than 20 hours per week. Average earnings were just over £50 per week. The paper refers to a recent survey by Natwest bank (Herald 22 September 1997) which estimated that students living away from home in Scotland spent £133.73 each week.

47. The figures assessed by Callender and Kemp (2000) and given in paragraph 42 above are averages for all full-time students. The average income for those under 26 was £5,775 and for those over 26 was £8,319. Just 6% of full-time students received social security benefits averaging £1,572 while 7% received £596 on average from Access and Hardship funds. Lone parents had the highest expenditure, an average of £12,798, while students living at home had the lowest, an average of £5,166.

48. There is less evidence for hardship amongst part-time students. The Callender/Kemp (2000) study gave figures for income and expenditure and concluded that :

> " *Part-time students were in a much more healthy position financially compared with full-time students. This was because they had greater earnings potential from employment...* "

Identification of Hardship

49. There are many sources of information about the adequacy of student support arrangements. Many of these are based on surveys of students.

50. The Callender/Kemp study (2000) showed that :

- 67% of lone parents studying full-time, compared with 37% of all full-time students and 30% part-timers, said that they had not bought books needed because they could not afford them.
- 61% of lone parents and 30% of couples with children said that their children had to go without certain items because they could not afford them.
- 41% of all full-time students who did not already own a computer were without one because they said that they could not afford one.
- 7% of all full-timer students and 5% of all part-timers had missed going to college at least once because they could not afford the travel costs.

51. A MORI survey for UNITE (a Housing Association), *Student Living Report* (2001) (based on surveys in autumn 2000) showed that having little money was the worst aspect of university life (55% of those surveyed). But only about 10% thought their spending was not a good investment for the future. At UCE, Birmingham(2001) the 2000 survey of student satisfaction revealed that 60% of students thought their financial position had a very bad or bad impact on their academic work. At the University of Brighton (2000 from survey in 1999/2000), the proportion of students considering that paid term-time employment had a bad effect on their academic work increased from 54% in 1992 to 77% in 2000.

52. According to the main research reports that we have considered, the main causes of hardship are:

- The inadequate level of support available through grants.
- The increasing level of term-time employment. About 14% of students' income comes from paid employment which provides a helpful cushion. However, there is no information available on the extent to which employment is designed to minimise loan requirements rather than to provide additional income. So it is difficult to assess the level of the shortfall in grant and loan.
- The failure of some parents, either because they can't or won't pay, to provide the expected contribution to fees and to living costs (the top quartile of loans for better off parents). 15% of students under 19 (24% for 20-24 year olds) expected to receive less than the full parental contribution in 1995/96, when there were no fees and means tested maintenance grants (Payne/Callender Student Loans 1997). Some 20% of students received less than the assessed parental contribution to fees in 1998/99 and faced a shortfall of £579 on average. (Callender/Kemp 2000).
- The particular needs of certain groups of students – in particular, mature students, lone parents, and ethnic minority students who are opposed in principle to loans. A substantial element of available Access and Hardship Funds is allocated to mature students and lone parents. HEFCW reports that over 60% is allocated in this way in Wales. Only half of the students of Asian origin take up loans compared with some three-quarters for all students. Moslems are opposed in principle to loans with interest payments although some are prepared to accept loans with no real rate of interest (as is the case with student loans).

Commentary

53. Taken together, these studies do not provide a clear conclusion about the level of deficit in student income. None of the studies identifies the extent to which students work to minimise their take up of student loans. To the extent that they do, there is more income available to them through loans. The NUS figures are based on an assumption that students do not take up their full loan entitlement. The Smith and Taylor figures do not allow for a parental contribution for those not eligible for the full student loan.

54. A key question is the extent to which the taxpayer should subsidise all that a student chooses to spend – as for example identified in the average spending of £6,161 identified in the Callender/Kemp (2000) study (when only the first year students paid fees). Some 27% of students owned their own cars and over 80% owned mobile phones. Some of this spending, but not all of it, is likely to be essential for the purpose of completing a course. The average does, however, conceal considerably higher spending levels for students aged over 26. A second key question is the extent to which it is reasonable to assume some income from earnings. Many students earn over £1,000 in the summer vacation to support their spending or reduce their dependence on loans. If the median (rather than the mean) level of spending estimated by Callender/Kemp.(2000) is adopted as a level reasonable for subsidy purposes and income from vacation employment (or term-time employment is assumed at £1,000, then there is no funding gap *for the average student* if the student takes out most of the available student loan and

parents make their assumed contribution to living costs. This would not, however apply to those who need to spend above the median, in particular mature students.

55. The main sources of hardship arise when students have additional costs (eg lone parents or married students) or when they are unwilling to take out their full loan. There are special grants available for the first category of students and there is also recourse to discretionary Access Funds. Nevertheless, for both categories of students, the perceived burden of a full student loan will often prove too great for students from poorer families or with low income themselves. There is the particular problem of Moslem students who may not be allowed by their faith to take out loans where interest is payable. (Some do, however, accept student loans since they are subject to a nil real rate of interest). There is of course the argument that student loans are income contingent and only repayable when students as graduates are earning a good salary. But that argument is less persuasive for students who have no family resources to which to turn if financial problems arise nor any family experience of long-term borrowing. It is also the case that students from poorer families earn about 8% less on average when they first graduate.(Callender and Kemp 2000)

56. This analysis points to the need for some extra grant income for individuals from the lowest socio-economic groups. Action of this kind has already been taken across the UK, although in England and Wales the opportunity bursaries are not part of the mandatory student support system. As to the problem for some Moslem students, it would not be fair to others to offer grants instead of loans. Some limited funding might be made available to assist Moslem communities to set up their own loan arrangements. One further option is worth considering. In economic terms, a student loan costs the taxpayer over time somewhat less than half the cost of a grant. In Australia, the Austudy scheme allowed older disadvantaged students to choose between a grant up to a certain level and a loan of twice the amount (see below). This arrangement should be considered for the UK. It may be particularly appropriate for the more mature student who has access to savings.

57. There is the further problem for students from better-off families whose parents are unwilling or unable to pay their assessed contribution towards fees and living costs. This does not have the same impact on participation and is not the same priority for additional subsidy from the taxpayer. One possibility might be a special student loan with an interest rate much closer to the bank rate.

Evidence from Non-payment of Fees and Non-completion

58. There have been various reports from individual institutions about the non-payment of fees. While changes in debtor levels can be identified from the annual accounts of individual institutions it may not always be possible to separate out the effect of increased student fee debtors. Furthermore, some institutions have chosen not to publicise the problem. We have heard during the course of this study that the British Universities Finance Directors Group has now set up a group to share experience and will be holding a conference this autumn to discuss the issues.

59. Most institutions insist on full payment of fees for the current academic year before a student starts the next academic year. So non-payment of fees will bear on non-completion rates.

60. As reported by Eliot-Major in the Guardian, heads of universities were told in July 2000 that £21million was outstanding through non-payment of fees in 2000. A recent survey for file on 4 (Radio 4) indicated that some 3000 students had failed to pay fees as required in 2001. This suggests that the problem has stabilised (if not reduced) and accounts for a very small percentage (0.3%) of all full-time students(over one million). Eliot-Major (2001) also reported that Peter Knight, Vice-Chancellor at UCE, Birmingham had suggested that problems over fee payments are linked with a 15% drop in student bar revenue at UCE. Elsewhere, student bar revenue has declined in part because of increasing competition from low cost bars in urban centres. One university Finance Director to whom we spoke told us that student debt in his institution stood at £5.2m involving 8,600 students on 15 May 2001, of which £4m was unpaid fees. Following contact with all the students concerned the total figure had fallen to £3.5m by 27 June and the majority of final year students had put in place arrangements to pay off their outstanding debt to the University. The University is an access university

61. Some 20% of students receive less than the assumed contribution from parents and hence may use student loan income to pay fees. Callender/Kemp (2000) reported that 7% of students were assessed to have an income themselves high enough to require a personal contribution to fees. In practice, 10% of first year students in 1998/99 (the first full-time students to pay fees) personally paid an average of £803 towards their fees. Most of these financed these fee payments at the time of payment through student loan income. Personal fee payments exacerbate the problem over adequate income to meet living costs

62. Over half of part-time students paid tuition fees with an average contribution of £519. A further one third received an average of £703 from their employer towards the cost of fees. Most of these were male students who had worked continuously for an employer in a relatively senior position.

63. Three times as many part-time students had difficulties with their institution over fee payments as compared with full-time students (15% compared with 5%). Over a third of those with difficulties had been penalised in some way. (Callender/Kemp 2000). Over half of part-time students paid tuition fees with an average contribution of £519. A further one third received an average of £703 from their employer towards the cost of fees. Most of these were male students who had worked continuously for an employer in a relatively senior position.

Non-Completion Rates

64. The research review prepared for the independent group which reported to the National Assembly of Wales (2001b) refers to an increase in the proportion of students dropping out from 14% in 1983/84 to 17/18% in 1993/94. This is disingenuous. The rate fluctuated in the years after 1983/84, increasing to 17% in 1987/88. Hence the average rate in 1993/94 is broadly at the 1987/88 level,

despite a doubling of participation rates from 1988 to 1993. This rate remains one of the lowest in the world.

65. The main concern is that the average figure conceals wide variations between institutions. HEFCE performance indicators show that institutions which recruit substantial numbers of students from the lower socio-economic groups have significantly higher rates of non-completion – for example, over 40% in the University of East London.[3]

66. Some studies have shown that there are few eligible students excluded from higher education by financial constraints (Forsyth/Furlong, 2000) but the caveats about the nature of the sample used in the study noted in paragraph 15 above that it may understate the proportions of young people from the lower socio-economic groups needs to be borne in mind. On the other hand, surveys of students who have failed to complete a course do suggest that financial considerations are often the main factor. These figures may, however, be exaggerated because some students may not want to admit that they had problems keeping up with academic work.

67. In 1998/99, 60% of full-time students and 40% of part-time students thought that financial difficulties had negatively affected academic performance. 37% of full-time students and 30% of part-time students had not bought all the books they needed because they could not afford them. This rose to 67% for lone parents studying full-time. 10% of both full-time and part-time students had thought about dropping out for financial reasons. 7% of full-time students and 5% of part-time students failed to attend college at least once because they could not afford the travel costs. This proportion doubled for full-time students in the greatest financial difficulty and quadrupled for part-time students in that category (Callender/Kemp 2000)

Commentary

68. Non-payment of fees leads to exclusion from the university concerned for the following academic year. Students in hardship are likely to reduce spending on living costs or books rather than run the risk of being excluded. Failure to pay fees is likely to represent a last resort. This is borne out by the estimated small percentage of students failing to pay fees.

69. Student surveys often give financing worries as the main cause of not completing a course. There is no evidence of a significant increase in average non-completion rates since 1987/88 up to 1993/94. (No data is yet available for students starting their courses from 1998/99 onwards.) However, non-completion rates are often

3 It should be noted that evidence produced by HEFCE for the Select Committee on Education and Employment demonstrated that there is no direct causal connection between social class and non-completion. What the performance indicators are showing is a correlation due to other factors. Entry qualifications, rather than social class, are strongly associated with rates of non-completion. This is supported by detailed evidence presented by the HEFCE to the Select Committee on Education and Employment. See the Select Committee on Education and Employment, Sixth Report, 'Higher Education: student retention'. 2001 (pages121-123).

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well above average for universities recruiting significant numbers of students – often more mature students - from lower socio-economic groups[3].

70. These findings support the commentary under the separate section on hardship.

Relative Impact of Means-tested Contributions to Tuition Fees and the Ending of Maintenance Grants

71. There is no published research specifically addressing this issue. Moreover, it is a difficult issue to address because a student's expenditure may not reflect the intentions underlying the income. While the intention is that parents provide the income to meet contributions to fees, 20% of students use their own loan or other income to pay at least part of the fees – the average shortfall of parents' contributions for these students being £579 (Callender/Kemp 2000). Hence the introduction of fees has meant in practice that 20% of students have to find £579 more than intended. A further difficulty is that many students from poorer families do not understand that they do not have to pay fees (Hutchings/Archer 2000). Hence it is not possible to assess the impact of fees alone on participation by students from different social groups.

72. There are three possible approaches to the problem. In 1998/99, some 42% of students paid no fees (Callender/Kemp 2000). A comparison between the finances of these students and other students ought to offer some indication of the impact of ending means-tested grants. However, students not contributing to fees are likely to be from lower social group families. So any analysis of this kind would not throw any light on the particular needs of students from these families.

73. A second approach is to compare the finances of those entering higher education before 1998/99 (who made no contribution to fees) with those entering higher education from 1998/99 onwards. The only available relevant research results were in a Survey conducted in 2000 by the Centre for Research into Quality at UCE Birmingham(2001). This revealed that 55% of year 3 students (no fees) worked during term-time while only 49.6% of year 1 and 2 students worked. The proportion of income from loans for year 3 students was the same as for year 1 and 2 students. These figures suggest that fees have had little effect on student finances but they may reflect debts accumulated by year 3 students over the period of their study. This Survey also reveals that 64.6% of students disagree strongly with the introduction of contributions to fees compared with 69.3% with the abolition of the maintenance grant. This may not however be significant because it is the students' parents who are expected to contribute to fees, while the beneficiary of maintenance grants was the student.

74. A third approach is to compare students from 1999/2000 onwards, whose main income for maintenance is through a student loan, with health care students who have continued to receive a bursary (grant) intended to provide for half their living costs. The 1999/2000 survey on the financial situation for students from the Health and Policy Centre at the University of Brighton (2000) provides the necessary breakdown. Not surprisingly, 54% of health care students agreed with the principle of the student loan scheme compared with 42% for other students. Only 20% of health care students worked more than 15 hours per week compared with 27% for other students. 41% of health care students considered that the Government should 'alter the student finance system' to ensure that students did not need to undertake paid work in term-time compared with 48.5% for other students. Health care and other students drew on savings of about the same level

(to over £2,000). Health care students spent much more on books – 69% spending more than £100 compared with 25% for other students. The reverse was the case for social activities. Other students received more in income from family members – 32% receiving more than £2,000 compared with 23% for healthcare students. The overall financial situation for the two groups of students was not very different, although slightly more non-health care students had debts of over £1,000.

75. These limited results do not suggest any significant difference between the impact of the contribution to fees and the loan for living costs. In any case, 20% of young students contribute to fees personally because their parents do not make the required contribution. Students over 25 are assessed on their personal income. These students do not differentiate between the impact of fees and the ending of the maintenance grant.

76. In policy terms, the Government's policies built upon the 1997 Manifesto understanding with the NUS to introduce 100% loans for living costs coupled with the Dearing recommendation to introduce fees. The Government expected to gain acceptance for its fees policy by ensuring that students from poorer families did not pay fees. In practice, the impact of the policy has led the NUS and its student members to question the original understanding with the Government over the introduction of 100% loans for living costs.

International Comparisons

77. There are two countries the USA and Australia where students are expected to make significant contributions either in the form of fees or graduate income contingent contributions where experience may be particularly relevant to this study.

78. The National Union of Students recently published a study of four international systems of higher education funding "*Equal Access or Elitist Entry*" (NUS 2000). This included the USA and Australia as well as England and Wales. The Australian study included evidence of a decline in participation from four of the six under-represented groups in higher education since the increase from 1997 in the level of student contribution under the Higher Education Contributions Scheme (HECS) from 23% to 37%. Furthermore overall expansion is now concentrated in business and related subjects at the expense of vocational subjects such as education. However, as we noted earlier the maintenance support arrangements in Australia provide means-tested grants for poorer students under the Youth Allowance Scheme and for older students under the Austudy programme. Under Austudy individuals may trade their grant for a loan of double the value.

79. The NUS study also points out that participation in higher education in the USA appears to have started to fall off at a time when fees have been increasing faster than inflation and the proportion of the financial aid available in the form of grants has been falling. The decline appears to have affected black students in particular. They have declined from 9% of the student population in 1995 to 7% now.

80. It has, however proved possible in the USA to measure more precisely the impact of the withdrawal of grant funding on participation rates by disadvantaged students. This opportunity arose from the withdrawal in 1982 of the Social Security Student Benefit programme which made monthly payments to 18-22 year olds who were the children of deceased, disabled or retired Social Security beneficiaries. At its peak this programme supported 11% of all students and paid out in 1980-81 $3.7bn with an average payment of $5,400. The paper "*Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion*" by Susan N. Dynarski (1999) of Harvard University use classic human capital theory to determine the impact of the loss of these grants on participation.

81. The results provide a pretty unequivocal demonstration that the cutting off of this grant support reduced the propensity of this group of students to participate in higher education by about a half and reduced the average completed study by one year. To the extent that these results are transferable to disadvantaged students in this country they raise important questions about the ending of means-tested mandatory grants in 1998.

Conclusions

82. The literature on the impact of new financial support arrangements for students in higher education, including the introduction of the means-tested contribution to tuition fees, remains limited. It is only three years since the new arrangements were introduced and the first full cohort of graduates with income contingent loans at the new substantially higher level will only start repayments next April.

83. There is therefore an unavoidable element of ignorance about the full impact of the new arrangements in studies of the attitudes of young people contemplating entry to higher education and their parents. In addition the samples used for these studies with one or two exceptions have been relatively small and several of the studies have used a focus group approach with its statistical limitations. Nevertheless several of the research reports drawing on these studies have appeared in refereed journals or as DfEE publications.

84. On the question of the impact of the new arrangements on student experience – financial hardship, non-payment of fees, term-time employment and non-completion – we have relied heavily on Callender and Kemp 2000 since it is based on a cross-section sample of students and provides a comprehensive analysis of student income and expenditure. However, even this study relates only to the first year of the introduction of the new arrangements, 1998/99.

85. Despite these shortcomings in the evidence reviewed here, the findings generally point in a similar direction. Nevertheless, the absence to date of any studies following through groups of individuals from school or college to their post-18 experiences including higher education - other than the Forsyth and Furlong study (2000) which has its own shortcomings, especially in the representation of those from the lowest socio-economic groups in the sample, discussed above - make it difficult to draw firm conclusions about the future pattern of behaviour in relation to higher education entry.

86. We consider, however, bearing these caveats in mind, that the principal conclusions from this research review are:

- The costs and potential benefits are two amongst several factors affecting the decisions by those from the lowest socio-economic groups on whether to enter higher education.
- The research by Forsyth and Furlong (2000) on Scottish students and Knowles (2000a) and Archer (2001) in England indicate that the level of understanding, at least as late as 2000, especially amongst those from the lowest socio-economic groups, of the arrangements for financial support for students in higher education remained poor. In particular there was ignorance of the implications of the means-testing of contributions to fees and the means-testing arrangements more generally.
- The research by Forsyth and Furlong (2000), Knowles (2000a and 2000b), Archer (2001) and Connor and Dewson et al. (2001) all identified concerns about the financial costs and in particular about the potential size of loan debt incurred as major factors in the decisions about entry by qualified students from the lowest socio-economic groups and from very limited evidence this was a major concern to their parents as well.
- By contrast Connor and Dewson et al (2001) and Archer (2001) also indicate that students from the lowest socio-economic groups have a good understanding of the potential benefits of higher education to individuals and are concerned about the risks of failing to secure those benefits. The evidence from these studies also hints that such considerations may be beginning to have some effect on the preferred choice of university amongst young people from the lowest socio-economic groups. They may decide to forego higher education altogether rather than attend an accessible university with a poor employability record. Further elucidation of this issue should be provided by the study (UCAS 2001) for which there was a preliminary report in the Times Higher Education Supplement on 6 July 2001.
- National policies assume that students from the poorest families and those forced to finance themselves are likely to take out the largest loans. Because those from the poorest families in particular also appear to be most loan averse, they are most at risk from hardship and most likely to fail to pay their fees and most likely on this account not to complete their courses. Although the research evidence fails to clarify the relationship between amount of term-time employment and take-up of loans, it appears likely that those who are most loan averse will work the longest hours during term-time to minimise their loan take-up.
- The comprehensive analysis of student income and expenditure (Callender and Kemp 2000) shows that other groups suffered financial hardship, including over 15% of students from higher socio-economic groups whose parents do not make their assessed contribution to fees and loans, mature students, loan parents and some Moslem students who were opposed on religious grounds to loans that incur interest. A substantial proportion of the payments from Access and Hardship funds are currently paid to mature students and loan parents and the government has now introduced grants aimed at these students to meet certain costs such as childcare and transport.
- The Callender and Kemp (2000) study concluded that on average part-time students were in a much more healthy position financially than full-time students because of their greater earnings potential from employment. However, three

times as many part-time students as full-time students had problems with their institution over fee payments, notwithstanding the much longer history of charging fees to part-time undergraduates. There is a need for part-time students to have access to loans on a means-tested basis, as the government has now recognised.

87. These conclusions tend to support the analysis in the Taylor Report (Universities UK 2001) that options for increased funding for institutions that involve either increased fee contributions and/or increased loan debt are likely to have a disproportionate effect on participation by students from the lowest socio-economic groups. Even if they are means-tested out of any contribution to increased fees, experience with the current system suggests that it is most difficult to get across the message about means-testing to those who are most likely to benefit. In addition, as the Taylor Report surmised, the evidence reviewed here suggests that individuals, particularly from the lowest socio-economic groups do not understand the main implications of income contingency that it insures you against having to repay the loan if your earnings remain low. They therefore do not distinguish between student loans and other types of loan.

88. If the government's target for participation in higher education is to be met, there will need to be significant increases in the level of participation from those in the lower socio-economic groups. To achieve this not only will more young people from these groups need to be persuaded to stay in education beyond 16, but those young people will have to be convinced that the costs of deferring their entry into the employment market for five years will indeed be rewarded by the better paid jobs and increased job security at the end of that time. However, for many potential students from the lowest socio-economic groups the tuition fee is ultimately a red herring since they will not be required to make a contribution. It is of interest in this context that Forsyth and Furlong (2000) found some evidence that the poorest students would have preferred the retention of the means-tested fee (which they did not pay) to the graduate contribution backed by an income contingent loan (that they might have to pay).

89. Given the evidence of the marked reluctance of these young people to meet some of their costs through taking out substantial loans, part of the solution must be to replace some of these loans by grants. A choice between a loan at a given level and a grant at half the level as in the Austudy model (NUS 2000) might be considered. In order to ensure that all potential students from the lowest socio-economic groups are offered an incentive, any grants should be mandatory (and means-tested) rather than discretionary – as in the increased grants now available to lone parents. These matters together with tuition fee contributions are of course issues for the DfES to recognise in its policies rather than for HEFCE but are essential considerations in a common approach to increasing participation.

90. For institutions the task is to provide ways of ensuring early on that potential students are aware of what the institution can offer and the benefits that accrue to graduates. They also need to take any available opportunities to enhance the understanding of potential students of the financial support available and of the costs. Once admitted the challenge to institutions is to provide appropriate support to ensure that the students from the lowest socio-economic groups complete their

course successfully. Successful completion is likely to provide the best kind of positive feedback to those coming up behind. HEFCE, in its allocation of funds, needs to recognise these various links in the chain if those from the lowest socio-economic groups are to be attracted in larger numbers into higher education.

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